

****REVISED****

BILL # HB 2147

TITLE: provisional community colleges; financing

SPONSOR: Konopnicki

STATUS: As Introduced

REQUESTED BY: House

PREPARED BY: Jake Corey

FISCAL ANALYSIS

Description

The bill would allow provisional community college districts to receive operating state aid and capital outlay state aid during their first two years of operation. In addition, the bill would allow provisional community college districts to receive federal vocational education grants and state Proposition 301 sales tax workforce development funding.

The section of the bill amending the distribution of Proposition 301 sales tax revenues is voter protected and would therefore require a three-fourths majority in the Legislature to be enacted.

Estimated Impact

The bill could have an estimated one-time General Fund cost of between \$398,000 and \$1,527,700 in FY 2005, in so far as the Legislature chooses to appropriate operating state aid and capital outlay state aid to Gila Provisional Community College District in that year. We have updated our prior fiscal note to reflect new information. The low end of the range assumes that Gila continues to contract with Pima Community College District for services. The upper end of the range could be the cost if Gila began to contract with Graham Community College District, as it did prior to FY 2003.

The sections of the bill allowing provisional community college districts to receive federal vocational education and state workforce development funding would not have a General Fund impact. The provisions would increase federal funding to Gila by between \$140,000 and \$280,000 and would increase state workforce development funding to Gila by between \$229,000 and \$295,600. The total amount distributed to the existing community college districts from those fund sources would be correspondingly decreased.

Analysis

The statutory formulas for operating state aid and capital outlay state aid provide funding to community college districts based on Full-Time Student Equivalent (FTSE) counts from two years prior to the year for which state aid is being calculated. For example, the operating and capital outlay amounts calculated for FY 2004 are based on FY 2002 FTSE counts. Therefore, though Gila began operations in FY 2004, under current statute the district is not eligible to receive state funding until FY 2006.

The bill would make a provisional community college district eligible to receive operating and capital outlay state aid in its first two years of operation, provided the district is also levying a property tax for operating purposes. State aid payments shall be made based on the district's estimate of its FTSE count for each of the first two years of operation.

In FY 2004 Gila's FTSE count is estimated to be approximately 325. Since statute does not allow a provisional community college district to award degrees, certificates or diplomas, Gila is currently contracting with Pima Community College District to provide services. If Gila continues to contract for services with Pima in FY 2005, we estimate Gila's FTSE count would increase to approximately 350. If, however, Gila contracts with another district in FY 2005, Gila's FTSE count could be as high as 1,000.

The difference in FY 2005 estimated FTSE is due to differences in district program offerings and the way in which each district classifies courses as credit or non-credit. Prior to contracting with Pima, Gila contracted with Graham Community College District. Pima does not offer all of the programs that Graham does. In addition, Graham classifies a number of courses as for credit that Pima classifies as non-credit. (One FTSE is equivalent to 30 *credit* hours over one year. Non-credit courses do not count in the calculation of FTSE.) Based on its program offerings and course classification guidelines, Pima is currently serving 325 Gila FTSE. In FY 2002, due to its program offerings and classification guidelines, Graham served approximately 950 Gila FTSE. If Gila were to again contract with Graham in FY 2005, Gila's FTSE count could increase to approximately 1,000.

The table below shows the formula amounts for operating and capital outlay state aid for Gila based on two scenarios, one in which Gila continues to contract with Pima in FY 2005, and one in which Gila contracts with Graham in FY 2005. For operating state aid, the formula provides \$992 per FTSE in FY 2004 and \$927 per FTSE in FY 2005. The capital outlay state aid formula provides \$210 per FTSE to districts with less than 5,000 FTSE in both FY 2004 and FY 2005.

Continue Contract with Pima in FY 2005			
	<u>FY 2004</u>	<u>FY 2005</u>	<u>TOTAL</u>
Operating	\$322,400	\$ 324,500	\$ 646,900
Capital Outlay	<u>68,300</u>	<u>73,500</u>	<u>141,800</u>
TOTAL	\$390,700	\$ 398,000	\$ 788,700
Contract with Graham in FY 2005			
	<u>FY 2004</u>	<u>FY 2005</u>	<u>TOTAL</u>
Operating	\$322,400	\$ 927,000	\$1,249,400
Capital Outlay	<u>68,300</u>	<u>210,000</u>	<u>278,300</u>
TOTAL	\$390,700	\$1,137,000	\$1,527,700

Though Gila began operating in FY 2004, under the bill the district would not receive operating or capital outlay funding in that year. Laws 2003, Chapter 262 (FY 2004 General Appropriation Act) already appropriated state aid amounts to the community colleges for FY 2004. It is unclear from the language in the bill if Gila would be eligible to receive funding based on the formula calculations over both FY 2004 and FY 2005, or if Gila would only be eligible to receive funding based solely on the FY 2005 calculation.

If Gila is only eligible to receive funding from the FY 2005 calculation, the estimated cost would be between \$398,000 and \$1,137,000, depending on which district Gila contracts with for services in FY 2005. If Gila is also eligible to receive funding based on the FY 2004 calculation, this would provide Gila with an additional \$390,700 in funding. The total estimated fiscal impact from the bill, therefore, would be between \$398,000, based on a continued contract with Pima and only receiving FY 2005 funding, and \$1,527,700, based on a contract with Graham and receiving FY 2004 and FY 2005 funding.

The bill indicates that, in its third year of operation, a provisional community college district's state aid payments shall be adjusted to reflect any discrepancies between the district estimate of its FTSE count during its first two years of operation and the actual, audited district FTSE count for the same two years. As the bill is currently written, this provision would only allow any discrepancies between estimated first year and actual first year FTSE to be corrected. Actual FTSE counts for the second year of operation would not be known prior to the calculation of state aid for the third year of operation.

Beyond FY 2005, the bill could have a General Fund cost if other provisional community college districts are formed in the future. This could affect Santa Cruz, Greenlee, and Apache counties, as those counties are currently not part of an established community college district. Santa Cruz voters elected to form a provisional community college district; however, they voted against instituting a property tax to fund the district.

Local Government Impact

The bill would allow provisional community college districts to receive federal vocational education grants and state Proposition 301 sales tax workforce development funding. These provisions would provide greater funding for Gila Provisional Community College District. Any additional funding provided to Gila would correspondingly reduce the total

amount distributed to the existing community college districts. If other provisional community college districts form in the future they would receive additional funding as well, with a corresponding reduction to existing district and provisional district distributions.

Federal vocational education grants are distributed to the community college districts through the Arizona Department of Education. Funding is allotted to the states based on a formula that takes into account states' population in certain age groups and their per capita income. Excluding Maricopa and Pima, Arizona districts will receive in the range of \$140,000 to \$280,000 in FY 2004. Under the bill, we would expect Gila to receive funding within the same range beginning in FY 2005. The total amount distributed to existing community college districts would be reduced correspondingly.

Proposition 301 increased the state sales tax from 5% to 5.6% to provide funding for several education related purposes. The community college districts receive 3% of total funds remaining after monies have been distributed to the School Facilities Board to pay the debt service on bonds issued for school repairs and renovations. Monies are provided to the community college districts to fund workforce development programs. In FY 2005 the community college districts are estimated to receive \$13,004,000 in workforce development funding. Under the bill, Gila would be estimated to receive between \$229,000 and \$295,600, depending on their FTSE count for that year. The total amount distributed to existing community college districts would be reduced correspondingly. If the bill was to be enacted, Gila could potentially receive some workforce development funding in FY 2004 as well, depending on when the bill becomes effective.

3/15/04